

Message Text

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ACTION EB-07

INFO OCT-01 ARA-10 ISO-00 AID-05 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06

SP-02 EPG-02 OMB-01 ABF-01 /062 W

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FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 2331

INFO TREASURY WASHDC

UNCLAS MEXICO 08163

EO 11652: N/A

TAGS: EFIN MX

SUBJECT: INTEREST RATE REFORM

1. SUMMARY: BANK OF MEXICO DIRECTOR GENERAL ROMERO KOLBECK ANNOUNCED OUTLINES OF LONG-AWAITED INTEREST RATE REFORM ON MAY 20. BANK OF MEXICO IS SETTING MAXIMUM RATES ON TIME DEPOSITS, WHILE PERMITTING BANKS TO PAY ANY RATES AT OR BELOW MAXIMUM. END SUMMARY.

2. BANKS WILL BE PERMITTED TO TAKE SHORT TERM DEPOSITS, THREE DAYS, ONE WEEK, AND ONE MONTH THAT WILL PAY ANNUAL INTEREST RATES OF NO MORE THAN 5.6 PERCENT, 5.8 PERCENT AND 8 PERCENT, RESPECTIVELY, NET OF TAXES. FINANCIAL BONDS, WHICH PAY 7.5 PERCENT NET OF TAXES AND ARE REDEEMABLE UPON DEMAND WILL BE PHASED OUT OVER A TWO AND ONE-HALF YEAR PERIOD.

3. MAXIMUM INTEREST ON THREE, SIX, TWELVE, 18 AND 24 MONTHS TIME DEPOSITS WILL BE 11 PERCENT, 13 PERCENT, 15 PERCENT, 15.5 AND 16 PERCENT, NET OF TAXES. THE PREVIOUS RATES FOR DEPOSITS IN EXCESS OF ONE MILLION PESOS RANGE FROM 8.5 PERCENT FOR THREE MONTHS, TO 10 PERCENT FOR SIX MONTHS AND 12.75 PERCENT FOR TWELVE MONTHS.

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4. EACH INSTITUTION IS FREE TO SET ITS OWN RATES AS LONG AS THEY DO NOT EXCEED THE MAXIMUM. THE BANK OF MEXICO WILL ALTER THE MAXIMUM RATES AS "MARKET CONDITIONS AND ECONOMIC OBJECTIVES" REQUIRE. EXISTING DEPOSITS ARE NOT AFFECTED. THE MINIMUM AMOUNT FOR TIME DEPOSITS, NOW 100,000 PESOS, IS ABOLISHED.

5. THE BANK OF MEXICO IS MAKING AN UNEXPLAINED EFFORT TO MINIMIZE ANY INCREASE IN INTEREST RATES ON LOANS.

6. WHILE INCREASE IN ALLOWABLE RATES IS NOT DRAMATIC, MOVEMENT TOWARD MORE FLEXIBLE AND MARKET-ORIENTED RATES IS ENCOURAGING'

7. THESE INTEREST RATES APPLY TO PESO DEPOSITS.

WASHINGTON WILL RECALL THAT INTEREST RATES ON "MEX-DOLLARS" WERE "REFORMED" IN EARLY APRIL. INTEREST RATES ON THESE DOLLAR-DENOMINATED TIME DEPOSITS ARE ONE PERCENTAGE POINT OVER THE RATE FOR THE CORRESPONDING LONDON EURO-DOLLAR DEPOSIT, PLUS AN AMOUNT EQUIVALENT TO THE MEXICAN 21 PERCENT WITHHOLDING TAX ON INTEREST. THOMPSON

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Message Attributes

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Sent Date: 24-May-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
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Disposition Approved on Date:
Disposition Case Number: n/a
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Disposition Event:
Disposition History: n/a
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TAGS: EFIN, MX, BANK OF MEXICO
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